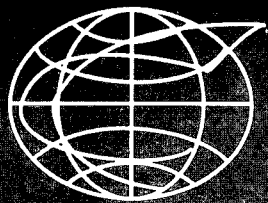


INTOSAI



International Journal of Government Auditing

April 1996



066526 / 156523

International Journal of Government Auditing

April 1996—Vol. 23, No. 2

©1996 International Journal of Government Auditing, Inc.

The International Journal of Government Auditing is published quarterly (January, April, July, October) in Arabic, English, French, German, and Spanish editions on behalf of INTOSAI (International Organization of Supreme Audit Institutions). The *Journal*, which is the official organ of INTOSAI, is dedicated to the advancement of government auditing procedures and techniques. Opinions and beliefs expressed are those of editors or individual contributors and do not necessarily reflect the views or policies of the Organization.

The editors invite submissions of articles, special reports, and news items, which should be sent to the editorial offices at U.S. General Accounting Office, Room 7806, 441 G Street, NW, Washington, D.C. 20548, U.S.A. (Phone: 202-512-4707. Facsimile: 202-512-4021. E-Mail: <75607.1051@compuserve.com>).

Given the *Journal's* use as a teaching tool, articles most likely to be accepted are those which deal with pragmatic aspects of public sector auditing. These include case studies, ideas on new audit methodologies or details on audit training programs. Articles that deal primarily with theory would not be appropriate.

The *Journal* is distributed to the heads of all Supreme Audit Institutions throughout the world who participate in the work of INTOSAI. Others may subscribe for US\$5 per year. Checks and correspondence for all editions should be mailed to the *Journal's* administration office—P.O. Box 50009, Washington, D.C. 20004, U.S.A.

Articles in the *Journal* are indexed in the *Accountants' Index* published by the American Institute of Certified Public Accountants and included in *Management Contents*. Selected articles are included in abstracts published by Anbar Management Services, Wembley, England, and University Microfilms International, Ann Arbor, Michigan, U.S.A.

Contents

- 1 Editorial
- 3 News in Brief
- 7 OLACEFS' Fifth General Assembly
- 9 India and INTOSAI
- 11 Audit of Ethics
- 13 Reinventing an SAI
- 16 Audit Profile-Republic of South Africa
- 18 Reports in Print
- 20 Inside INTOSAI
- 23 1995 Index

Board of Editors

Franz Fiedler, President, Court of Audit, Austria
L. Denis Desautels, Auditor General, Canada
Ismail Ayari, Premier President, Court of Accounts, Tunisia
Charles A. Bowsher, Comptroller General, United States
Eduardo Roche Lander, Comptroller General, Venezuela

President, IJGA, Inc.

Peter V. Aliferis (U.S.A.)

Editor

Donald R. Drach (U.S.A.)

Assistant Editor

Linda L. Weeks (U.S.A.)

Associate Editors

William Woodley (Canada)
Axel Nawrath (Federal Republic of Germany)
Kiyoshi Okamoto (ASOSAI-Japan)
Luseane Sikalu (SPASAI-Tonga)
Sharma Outley (CAROSAI-Trinidad and Tobago)
Abderrazak Smaoui (Tunisia)
Diane Reinke (U.S.A.)
Cristina Rojas Valery (Venezuela)
INTOSAI General Secretariat

Production/Administration

Sebrina Chase (U.S.A.)

Finance

Jagdish Narang (U.S.A.)

Members of the Governing Board of INTOSAI

Fakhry Abbas, President, Central Auditing Organization, Egypt, Chairman
Rinaldo Smeraldi, President, Court of Accounts, Uruguay, First Vice-Chairman
Tawfik I. Tawfik, State Minister and President, General Audit Bureau, Saudi Arabia, Second Vice-Chairman
Franz Fiedler, President, Court of Audit, Austria, Secretary General
Patrick Barrett, Auditor General, Australia
E. David Griffith, Auditor General, Barbados
Marcos Vinicios Rodrigues Vilaca, Minister-President, Court of Accounts, Brazil
Paul Ella Menye, Co-ordinator General, Cameroon
L. Denis Desautels, Auditor General, Canada
Hedda Czasche, President, Court of Audit, Germany
V. K. Shunglu, Comptroller and Auditor General, India
Javier Castillo Ayala, Contador Mayor de Hacienda, Mexico
Abdessadeq El Glaoui, President, Court of Accounts, Morocco
Bjarne Mork Eidem, Auditor General, Norway
Alfredo Jose de Sousa Franco, President, Court of Accounts, Portugal
Pohiva Tui'onetoa, Auditor General, Tonga
Charles A. Bowsher, Comptroller General, United States

Strengthening Internal Oversight at the United Nations

By Boutros Boutros-Ghali, Secretary-General of the United Nations

Editor's Note: INTOSAI and the United Nations have enjoyed a strong professional relationship since INTOSAI was created in 1953 as an affiliate of the United Nations. The relationship has grown stronger over these 43 years, with INTOSAI member SAI's playing a vital role as external auditors for the United Nations and its specialized agencies, and with senior United Nations officers participating regularly in INTOSAI activities such as the triennial congresses. It is in the context of this long and mutually beneficial professional relationship that Secretary-General Boutros Boutros-Ghali shares his views with Journal readers on the importance of audit and oversight to UN operations.



Mr. Boutros Boutros-Ghali

Fifty years after its creation, the United Nations faces the deepest financial crisis in its history. It is, above all, an income crisis. Contributions from some Member States are unpaid. Resources are drastically shrinking. Sound, wise and prudent financial management is indispensable as never before.

This is the context within which efforts to strengthen accountability and to promote more economic, efficient and effective use of resources have gathered momentum. This endeavor was central to the fresh and responsible management culture which I was determined to foster in the Organization.

In August 1993, I announced the creation of a new post of Assistant Secretary-General for Inspections and Investigations and stated in my annual report for that year that this was "the first step towards the establishment of a higher level post with broader audit, evaluation and investigation authority." That first step paved a path that was realized within a year.

The Office of Internal Oversight Services (OIOS)

In September 1994, the United Nations General Assembly established the Office of Internal Oversight Services (OIOS). Patterned in many ways on the office of Inspector-General or similar positions in a number of countries, the mandate of OIOS has been designed specifically to meet the needs and features of the UN. It provides the Secretary-General with a full range of oversight services and, together with the internal audit, also provides management consulting, program evaluation, monitoring, inspection and investigation services. The integration of all internal oversight functions within one office has facilitated a better management and coordination of these different functions and the selection of appropriate choices between several oversight approaches and methodologies in tune with circumstances.

The Office is headed by an Under-Secretary-General whose five-year appointment must be confirmed by the General Assembly. It enjoys complete operational independence in the conduct of its duties. Officials of the United Nations Secretariat can neither impede OIOS from carrying out any activity within the purview of its mandate nor can they influence the conduct of such activities. This operational independence is the natural prerequisite for providing the Secretary-General and the Member States with a professional and objective assessment of UN program activities and performance.

Reporting to the General Assembly

OIOS reports its findings to the Secretary-General and, through him, to the General Assembly. Its report is thus in the international public domain. This annual activity report summarizes the Office's major findings and makes recommendations for corrective action. The Office is also called upon throughout the year to bring to the attention of the General Assembly major findings that provide an insight into the utilization and management of resources.

This direct access to the principal legislative body of the Organization has considerably strengthened the impact of internal oversight. Issues that were once settled behind closed doors are now being discussed openly and publicly. My program managers have been demonstrably supportive in recognizing that this transparency will ultimately benefit the Organization and raise its standing in the eyes of Member States and the world at large. Staff members, even at this particularly difficult time of uncertainties and insecurities, have been equally supportive of this mission.

Investigation—A New Function in the United Nations

OIOS' most recent function is investigation. The United Nations Charter unequivocally defines as the paramount consideration in the employment of staff the necessity of securing the highest standards of efficiency, competence and integrity. In the past, the Secretary-General had relatively limited means to go into and gather evidence—or clearly establish innocence—in instances where United Nations staff members were alleged to have fallen short of these standards. He was similarly restricted in respect to questions relating to contractors and outside entities with whom the Organization was engaged in financial and commercial transactions.

OIOS' Investigations Section provides the Secretary-General with the professional skills required to detect and deter corruption, malfeasance and other instances of improper conduct.

Pro-active Auditing

OIOS has defined its mission as promotion of efficient and effective program management and deterrence of future problems. Although it is essential to expose and report on waste, fraud, abuse and mismanagement, the objective of internal

Efforts to recover funds that have been wasted in the past is important; even more so is to prevent recurrence of such waste in the future, to identify potential savings and to develop solutions to problems that impair efficiency in the Organization.

oversight is not to dwell on past mistakes but to take a pro-active approach to problems facing the Organization. Efforts to recover funds that have been wasted in the past is important; even more so is to prevent recurrence of such waste in the future, to identify potential savings and to develop solutions to problems that impair efficiency in the Organization.

Consequently, OIOS' internal audits are increasingly dealing with value-for-money issues and classical audit activities are being complemented by management consulting services. Strengthening internal oversight cannot be achieved by a new structure and a new mandate alone. The oversight mechanisms created by the General Assembly have to be actively used by all parties involved. Pro-active auditing and management consulting especially require a new relationship between auditors and auditees. OIOS, the United Nations Department of Administration and Management, and program managers are working together in the effort to become partners in strengthening internal oversight and accountability. Their joint efforts will not only help to make better use of the Organization's very finite resources, but can also encourage Member States to honor their financial obligations towards the United Nations. ■

News in Brief

Australia

Annual Report Issued

The Auditor General's Annual Report was tabled in Parliament in October 1995, and includes information about performance audits, financial statement audits, and the new audit act. During the year reported, the office tabled 33 performance audit reports and preliminary studies. A large number of recommendations were made in these reports which, when implemented, will contribute significantly to improvements in public administration.

The 1994-95 financial statements of government bodies were also reported, with 92% of unqualified audit opinions issued. And, beginning with the new financial year, the Australian National Audit Office will begin a new type of audit (audits of financial control and administration) to address common activities of a corporate nature undertaken by most agencies. This will provide Parliament with indicators of best practices and needed improvements.

Finally, three bills are being considered by Parliament to replace the Audit Act of 1901, the Auditor General Bill, the Financial Management and Accountability Bill, and the Commonwealth Authorities and Companies Bill. The latter two bills reflect a basic distinction between core agencies of government and non-core bodies controlled by the government. The bills were not passed before the recent federal election, and will therefore need to be re-introduced when the new Parliament sits in April 1996.

For additional information contact: Australian National Audit Office, GPO Box 707, Canberra ACT, Australia.

Brazil

Provincial Auditors Hold International Conference

The Court of Accounts of the Brazilian state of Bahia held a conference on "Auditing in the Year 2000" to celebrate its 80th anniversary. The conference addressed a wide range of professional and technical issues facing auditors on the eve of the 21st century, and attracted speakers from the SAIs of Canada, the United Kingdom and Portugal. In a related activity, the Bahian Court translated the U.S. General Accounting Office's (GAO) Government Auditing Standards, popularly known as the yellow book, into Portuguese. For more information contact: Adhemar Martins Bento Gomes, President, Tribunal de Contas do Estado da Bahia, Av. Luiz Viana Filho, Plataforma 05, Ed. Joaquim Batista Neves, Salvador, Bahia, Brasil.

Croatia

First Annual Report

The State Audit Office (SAO) of the Republic of Croatia presented its first annual report to the legislative body. The report includes the results of financial audits as well as management audits of the national and local government budgets. Examples of audited entities are state ministries (including defense and internal affairs), state funds, health and retirement insurance institutions, the central bank, and the capital city of Zagreb.

In her report, Auditor General Krasic drew attention to a number of specific problems, such as weaknesses in the management of the agriculture compensation system. For example, program managers often lack expertise in government systems to efficiently and effectively manage them. The audit report was debated in the Parliament,

where the independence of the SAO was stressed and reinforced. For more information contact: Office of the Auditor General of Croatia, Tkalciceva 19, HR-10000, Zagreb, Croatia.

Hong Kong

Annual Report

In October 1995, the Director of Audit submitted his Report Number 25 to the President of the Hong Kong Legislative Council. The report contains 13 value-for-money studies, including one which reviewed the recoverability of advances made by the Hong Kong government to the United Nations High Commission for Refugees (UNHCR). The total amount of these outstanding advances as of March 1995 was US\$130 million. The audit report noted that the agreement between the UNHCR and the Hong Kong government on repayment of these advances was not legally enforceable because the UNHCR had not considered itself legally liable to repay the advances. The report concluded that there were sufficient grounds to doubt the recoverability of the outstanding charges, and raised questions about the practice of charging expenditures incurred on behalf of the UNHCR to the government's accounts. In response, the Public Accounts Committee strongly recommended that the Financial Secretary should discontinue this practice and that funding approval should be sought from the Legislative Council.

Report Number 25 also includes a study of housing benefits provided by the Hong Kong Hospital Authority to its employees. The study found that the housing benefits would, over a period of 20 years, outstrip those offered by the civil service by US\$850 million and, further, that this contradicts the original intention of the benefits package. The audit report stated that the cause of this problem was a lack of long-term financial analysis when the Authority's plan

was designed. The Public Accounts Committee noted that the Authority should examine the long-term cost implications when formulating policy with long-term effects; the committee also urged that a review of the Authority's remuneration package be expedited.

For more information contact: Director of Audit, Audit Department, 26/F. Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong (fax: 852-2824-2087; e-mail: <auddept@hk.super.net>).

India

New Auditor General

Upon the retirement of Mr. C. G. Somiah (see page 9), Mr. V. K. Shunglu was appointed Comptroller and Auditor General of India on March 15, 1996. Mr. Shunglu comes to the audit office following a distinguished public service career that began in 1962 when he joined the Indian Administrative Service. He has held a number of senior positions in the state government including Principal Secretary of Finance, Commercial Taxes, and Secretary of Planning. In the central government he held various posts in the Ministry of Commerce, the Ministry of Finance, and in the Cabinet Secretariat.



Mr. V. K. Shunglu

In 1993, Mr. Shunglu was appointed as Special Secretary of Power, and subsequently served as Secretary of Health and Family Welfare in 1994 and then, in 1995, as Secretary of Industrial Policy

and Promotion as well as the Secretary of Department of Company Affairs. He was alternate leader of the Indian delegation at the International Conference on Population and Development held in Cairo in 1994. In addition to his government service, Mr. Shunglu worked at the Asian Development Bank from 1985 to 1990, and attended the World Bank's Economic Development Institute while on sabbatical in 1976. He has bachelors and masters degrees from St. Stephens College, Delhi University.

In assuming his new position, Mr. Shunglu joins the INTOSAI Governing Board, becomes Chairman of ASOSAI and of INTOSAI's EDP Auditing Committee; he also serves as a member of the United Nations Board of Auditors, and as the external auditor of the newly established International Center for Genetic Engineering and Biotechnology. For more information contact: Office of the Comptroller and Auditor General, 10 Bahadur Shah Zafar Marg, New Delhi 110002, India.

Japan

Monthly Journal

The Board of Audit of Japan has translated into Japanese and reprinted an article from this *Journal* in its monthly journal. The article was written by Ms. Inga-Britt Ahlenius, Auditor General of Sweden, and Assistant Auditor General Gert Jonsson, on the subject of "A New Strategy for Performance Audits of Social Security Systems" (see this *Journal*, April 1995). In reprinting the article, the Board notes that "it will contribute to the Board's understanding of social security systems audit in Sweden, a country world famous for its excellent social welfare system." For more information contact: Board of Audit of Japan, 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100, Japan.

Korea

1994 Annual Report

The Board of Audit and Inspection (BAI) issued its annual report for fiscal year 1994, along with an abridged version in English. The report contains brief

but comprehensive descriptions of the BAI's activities, as well as an overview of its duties, functions and organizational structure. The annual report includes the results of 67 performance audits conducted in six areas of government activity. The BAI devoted approximately 50% of its staff resources to performance auditing.

The report also notes the amendment in 1994 of Korea's audit act, which had not been amended since 1973. The amended act strengthens the independence of the Board and gives the Chairman the right to recommend changes to the chief internal auditor. The full text of the amended act supplements the annual report, which also includes many tables, graphs and charts to facilitate understanding. For more information contact: Board of Audit and Inspection (ATTN: Changhwan Lee), 25-23 Samchung-dong, Chongro-ku, Seoul 110-230, Korea.

Lithuania

New SAI Journal

The State Control Office of Lithuania has begun publishing information to inform the general public about the latest laws and government decisions regarding public sector auditing. Entitled "State Control," the publication was initiated in response to a government law guaranteeing the media access to information about all non-secret government activities. The publication includes findings of audit reports submitted to parliament as well as scientific articles. For more information contact: State Control Office, Parmenkanio 27, 2669 Vilnius, Lithuania.

New Zealand

Annual Report

New Zealand's Office of the Comptroller and Auditor General has issued its 1995 annual report, which includes the results of 3,709 financial statement audits as well as reports to management. Included in that number are the almost 3,000 entities whose financial statements are combined into the consolidated financial statement of the Crown, i.e., the

national balance sheet and operating results. In addition, the Office issued four general reports to Parliament during 1995 on topics such as employment of consultants by government departments; debt management; financial management of polytechnic institutions; contracting practices of local authorities; and, purchasing practices of government departments.

In addition to the written reports, the Office also provided a large volume of advice and assistance to Parliament and its committees, executive branch agencies; professional bodies and sector group representatives; and individual members of Parliament, ministers and members of the public. The Office also developed standards and guidelines for the conduct of public sector audits, thus giving providers of audit services to the Audit Office clear and useful guidance on the conduct of these audits, particularly in government departments and regional territorial local authorities. A key component is a legislative audit model that explains the role of the legislative auditor and the contribution that all auditors make to that role. Another Audit Office activity last year was a major review of the tender process for allocating those audits done in-house and those done on a contract basis by private sector audit firms. While the existing process was considered to be good, a greater emphasis was seen to be required on the needs of Parliament rather than those of the audited entity; on the fairness of the process among potential bidders; and on minimizing the cost of the process.

For more information contact: Office of the Controller and Auditor General, Level 7, 48 Mulgrave Street, PO Box 3928, Wellington, New Zealand.

Pakistan

New Auditor General

The President of Pakistan appointed Syed Khalid Mahmud as Auditor General of Pakistan on December 31, 1995. Mr. Mahmud joined the Pakistan Civil Service in 1955 and has held progressively important positions in the provincial and federal governments including

the position of Secretary to the Government Department of Planning and Development, Department of Interior State and Frontier Regions, and Department of Social Welfare & Special Education. He served as Chairman of the Prime Minister's Inspection Commission from November 1993 to January 1995.



Mr. Syed Khalid Mahmud

Mr. Mahmud obtained a Masters in Economics from the University of Punjab and completed the Masters degree program in Public Administration at the University of Southern California; he also has a diploma in Public Administration from Balliol College, Oxford. He is a fellow at the U.K. Royal Institute of Public Administration. Mr. Mahmud is a prolific writer. He has authored many books and papers on Public Administration subjects, has lectured at Pakistan Administrative Staff College and at the National Institute of Public Administration.

For more information contact: the Office of the Auditor General, Constitution Avenue, Islamabad 44000, Pakistan.

South Africa

Annual Report Issued

The annual report for the year ended March 31, 1995, was tabled in Parliament by the Auditor General of South Africa, and includes the results of 1,323 regularity audits and 42 performance audits conducted during the year under review. The report also notes that the number of audits in arrears was reduced.

Special attention is given to the Office's compliance with the requirements of the Reporting by Public Entities Act, and with the King Report on Corporate Governance which seeks to establish new standards for corporate governance in South Africa. In doing this, the Office of the Auditor General strives to set an example regarding its own accountability arrangements.

Regarding internal strategic objectives, the report notes that the Office's compliance with Generally Accepted Government (i.e., INTOSAI) Auditing Standards has improved and will soon largely be achieved. In addition, steps have been taken to further improve the quality control process in the Office. While the cost of audits is recovered from auditees on the basis of actual time spent on auditing, the Office has, notwithstanding improved audit quality, for the second consecutive year been successful in reducing these costs in real terms. Effective cost control through appropriate budget control measures has been one of the most important factors underlying the disciplined financial performance of the Office.

In view of the new political status in South Africa, one of the important general projects initiated by the Auditor General was the amalgamation of the five existing audit offices in the country. However, as a result of the many unresolved issues which need to be negotiated, including salary parity and enabling legislation, amalgamation has not yet been fully achieved.

Regarding other developments in the Office, the establishment of a new component for auditing revenues and taxes has, to a great extent, been finalized. A computer audit strategy is now being implemented, and appropriate steps are also being taken to further enhance the Office's capability to conduct performance audits. Furthermore, good progress was made with the Office's computerization program which included a major enhancement of networks and electronic communication as well as the implementation of a graphical user interface. The Office now has 400 microcomputers which are used for office automation and functional audit tasks.

For more information contact: Office of the Auditor General, P.O. Box 446, Pretoria 0001, South Africa.

United States of America

1995 Annual Report

GAO's 1995 Annual Report has been published, and highlights many of the issues raised by the GAO throughout the year in capsule summaries of 100 significant reports and testimonies. The report notes that in 1995 GAO issued a total of 1,322 audit and evaluation products, including 910 written reports to Congress and agency officials, 166 briefings, and 246 congressional testimonies. GAO's work contributed to financial benefits of US\$15.8 billion, a return of \$35 for each dollar invested in GAO operations.

GAO's work centered on five areas it identified in its strategic plan as having the highest priority: promoting a

more efficient and cost-effective government; exposing waste, fraud, abuse and mismanagement; targeting spending reductions to reduce the deficit; improving accountability through financial and information management; and, identifying trends with fiscal, budgetary or oversight consequences for the government.

The report notes that GAO's work in identifying high-risk programs is working well. For example, GAO's most recent high-risk reports confirmed that progress has been made in attacking the root causes of problems at 15 of the 18 (high-risk) programs GAO had identified through fiscal year 1994. Five of the 18 (the Bank Insurance Fund, the Resolution Trust Corporation, the Pension Benefit Guaranty Corporation, the State Department's management of overseas property, and the Federal Transit Administration's grant management program) had attained sound enough

footing that GAO removed their high-risk designations. In fiscal year 1995, GAO designated seven new high-risk areas in hopes that the greater focus afforded these areas will yield progress among them as well.

The 85-page report also includes GAO's audited financial statements for fiscal year 1995, as well as information about the Office's mission and operations such as a status report on efforts to downsize and consolidate operations; recent investments to increase productivity; management's assessment of GAO's internal controls; a summary of quality control efforts; and a discussion of GAO's external Audit Advisory Committee.

Copies of the report are available from GAO's home page on the world wide web (<http://www.gao.gov>) or by writing to the US General Accounting Office, room 7806, Washington, D.C. 20548 USA. ■

OLACEFS' Fifth General Assembly Held in Peru

By Monika Gonzalez-Koss, INTOSAI General Secretariat

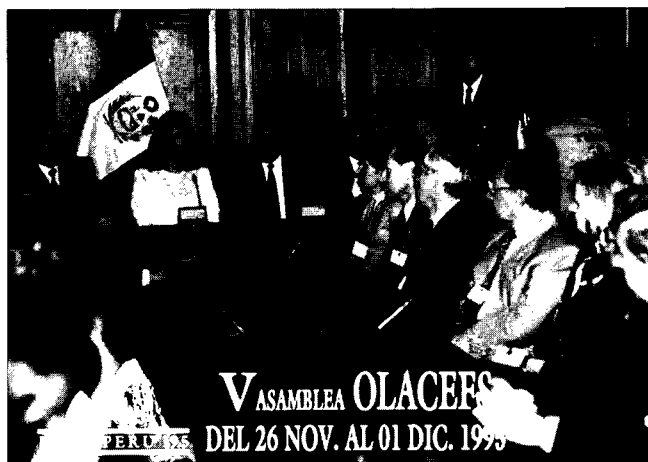
The fifth General Assembly of the Organization of Supreme Audit Institutions of Latin America and the Caribbean (OLACEFS) was held in Lima, Peru from November 26 to December 1, 1995. Representatives from all OLACEFS member states, the INTOSAI General Secretariat, numerous regional auditing bodies, and international organizations attended the five-day event.

The Assembly began with the opening ceremony attended by the President of the Republic of Peru. In his opening speech, the President of OLACEFS, Mr. Javier Castillo Ayala, referred to the Jorg Kandutsch Award of Supreme Audit Institutions awarded to the SAI of Mexico on the occasion of the XV INCOSAI in Cairo. He underlined the importance of this prize in expressing the appreciation and recognition of the work done by the Mexican SAI and the entire region and, as he put it, the work of OLACEFS.

The conference focused on three key themes based on papers prepared by experts from different disciplines, and seven detailed papers presented by the heads and representatives of individual SAIs.

Theme I

The first key paper, prepared by Dr. Luis Moreno from Argentina, covered "Corruption in the administration." The president of Colombia's SAI, Dr. David Turbay, presented a paper on the subtheme "Regional measures in the battle against corruption." The discussions on Theme I and the pertinent subthemes resulted in the following conclusions and recommendations. In order to successfully control the effects of corruption, SAIs should concentrate on the effectiveness of their measures and in particular identify new and improved sources of information and various other mechanisms which will guarantee the success of these controls. There was also agreement that to be effective, anti-corruption campaigns must combine the efforts of SAIs with those of all other civil and government powers; the SAI in particular should work with the general citizenry. This can be done by informing the public of the potential for action within the given legal framework and of suitable control factors. Setting up a program in which the citizenry could identify and report corruption would create a direct link between society and the SAI, giving citizens an active role in public accountability. The citizens, for example, could indicate such corruption issues as the misuse of public funds or the ineffective action by public servants.



Pictured above, seated in front of the flag of Peru, are the Comptroller General of Peru, the President of the Peruvian Congress, and the Comptroller General of Mexico.

As the SAIs in Latin America do not have a system for direct citizen participation, a framework must be set up in order to regulate how society can participate and cooperate with the SAIs and the pertinent authorities in exercising their anti-corruption efforts. This system of direct participation by the citizens should be put on a solid legal basis and organized in a way which allows rapid reaction to complaints or reports; in this way it will be possible to effectively counter deficiencies in public accountability. SAIs should also be a coordinating figure in working out a control philosophy addressing corruption. These efforts should be supported by a specific education campaign for citizens and also promote all such activities by other bodies.

It was also recommended that SAIs should set up a data bank containing all the information obtained from participating citizens, as well as legal and technical information and experiences on fighting corruption. The database should be available to all OLACEFS members in their anti-corruption campaign. The OLACEFS General Assembly resolved in this context that it would be useful to set up a Latin American and Caribbean fund to promote public ethics which is managed and administered by OLACEFS and organized by Latin American and Caribbean SAIs, by private or public authorities, and by non-governmental organizations focusing on a full-scale educational campaign to raise public values and fight corruption.

Theme II

The assistant auditor general of Uruguay, Dr. Fernando Arguirre Ramirez then presented the lead Theme II paper on "The role of SAIs in supporting parliament."

The chief points mentioned on this theme were:

- 1) The importance of excellent relationships between technical and political controls and the need for individual states to be capable of responding to the new economic challenges, in particular the demand that democratic institutions are able to perform their tasks in a way that is transparent for the general public.
- 2) The enormous importance of SAI autonomy in terms of budget, administration and staffing.
- 3) Parliament's cooperation with SAIs when setting up the budgets should not only cover an ex post control but also provide support to individual parliamentary organs during the period of setting up budgets, making technical and parallel information available on request.
- 4) Relating to the importance of the political decision-making as a support to the work of SAIs, special attention was given to the fact that the SAI's work can only be effective when recommendations are actually applied in practice.



The opening reception offered delegates the opportunity to share information and experiences in an informal setting. Pictured above (from left to right): INTOSAI General Secretariat representative Ms. Gonzalez-Koss; Conference host Dr. Caso Lay; and, OLACEFS president Mr. Castillo.

The next point in the agenda was the key speech by Jeremy Coleman of the National Audit Office (NAO) of the United Kingdom on "Auditing the Privatization Process." In his paper Mr. Coleman detailed NAO's work as chairman of the INTOSAI committee on privatization and underlined three main activities by the group:

- 1) Preparation of a questionnaire sent to all INTOSAI members, 81 replies having been received to date.
- 2) A chronological analysis of privatization and restructuring.
- 3) The problems of regulating all government activities intervening in the private sphere.

Delegates were very interested in the fact that a general privatization law did not exist in the United Kingdom, but instead, the existing legal scope was exploited to the full and new laws were created for each specific case of privatization, for example, the water law. While these laws were basically similar, details were always tailored to the specific case of privatization. In the context of Theme II he said that the United Kingdom had only seen a few cases of corruption relating to privatization because of the strong relationships binding all parties involved in the process.

Theme III

Theme III was presented by the head of the Peru SAI, Dr. Victor Enrique Caso Lay: "The role of SAIs in the privatization process." This paper and the plenary discussion resulted in the following conclusions and recommendations.

In practically all OLACEFS member states privatization processes were either on course or (in only one of them) planning to commence in the coming years. In all countries experiencing privatization, SAIs are involved in auditing the process. Mexico, having carried out 139 privatization audits, has had the most experience in this field, although it indicated that their focus was on adherence to laws. In this context, numerous representatives of Latin American SAIs put forward the problems encountered in staff training, because only a very few had specially trained auditors for this area.

The main findings of audits of the privatization process addressed the lack of a corresponding legal framework, lack of pertinent internal controls, lack of information throughout the process, inadequate assessment of assets and shares, and incorrect use of the funds gained from privatization. It was recommended, therefore, that the privatization process should be broken down into individual phases, exact auditing criteria should be defined, and better possibilities created for carrying out the controls.

The General Assembly provided all delegates with an opportunity to visit the congress and Peru's presidential palace and concluded by deciding the venue for the next general meeting of OLACEFS, which is to take place in autumn 1996 in Guatemala. The new governing board of OLACEFS consists of Mexico, Peru, Guatemala, Brazil and Colombia.

For more information contact the OLACEFS General Secretariat, Av. Coyoacán No. 1501, Cal del Valle, Delegación Benito Juárez, Mexico 03100, D.F. Mexico. ■

India and INTOSAI

By C. G. Somiah, former Comptroller and Auditor General of India

Editor's Note: Mr. C. G. Somiah retired from office in 1996 after serving six years as Comptroller and Auditor General of India. During that period he became active in many INTOSAI programs, and a leader of the organization. In this article, Mr. Somiah reflects on INTOSAI, its relationship with his office, and the benefits INTOSAI members receive through their participation in the organization.

Supreme Audit Institutions (SAI) all over the world have established an identity that cuts across national boundaries. Their objectives are generally the same—to ensure public accountability and transparency, promote good governance, and encourage better administration. INTOSAI helps its member SAIs achieve these objectives by providing them an opportunity to share information and experiences in the field of public auditing.

The Indian SAI has been a member of INTOSAI since its inception, and has participated in its numerous activities over the years. As Comptroller and Auditor General of India from 1990 to 1996, my association with INTOSAI dates back to India's appointment by the Governing Board as the chair of the Committee on EDP Audit. The Technology Symposium following the XIV INCOSAI at Washington in October 1992 gave me an opportunity to discuss the role of information technology (IT) in empowering SAIs to overcome new challenges with representatives from a cross-section of SAIs. Subsequent meetings of the Committee resulted in the development of several IT and IT-audit related products beneficial to SAIs with varying degrees of computer skills. At the XV Congress of INTOSAI held in Cairo last year, India was honored to be elected as a member of the Governing Board. This Congress gave me an opportunity to renew my acquaintance with many old friends in the INTOSAI community, and realize how INTOSAI had developed over the years to become a pioneer in the field of public sector auditing and a champion of public accountability world-wide.

Our SAI is also a charter member of the Asian Organization of Supreme Audit Institutions (ASOSAI). In November 1994, we had the privilege of hosting the 6th Assembly and 5th International Seminar of ASOSAI at New Delhi. Our Asian regional working group has been actively engaged over the years in supporting its members in upgrading skills and audit techniques through training programs, seminars, workshops, research projects and other publications. ASOSAI has finalized a Long-Term Regional Training Program covering the



Mr. C. G. Somiah

years 1996-2000 in consultation with IDI, which will help members enhance their training capabilities through establishing regional and local training infrastructures.

Internationally, our SAI both contributes to and benefits from the process of cooperation with INTOSAI members. Since 1979, our International Training Center has conducted training programs annually on different audit themes with participants from the Asian, African and Pacific regions. Similarly, we have also been deputing our staff for training and attachment to different SAIs as part of bilateral and multilateral programs.

During the six years of my tenure as Comptroller and Auditor General of India, our SAI has had to adapt to the fast changing and complex environment in which it is functioning. The Indian government has adopted the long-term policy of financial and economic reforms in various sectors, impacting our SAI's role in promoting effective financial accountability. Against the back-drop of the recent significant changes in the economic policy of government, we have made critical evaluations of the program of partial disinvestment of government shareholding in public sector enterprises, as well as the public debt position of government; these have been well received in view of their topical nature. We have now formally issued our own Auditing Standards, and in developing these standards we have drawn considerably from the INTOSAI Auditing Standards as well as the standards of other SAIs. We have also tried to make our audit reports, relating to both the federal and the provincial governments, more responsive to user needs, and these have been appreciated not only by the executive and the legislature, but also by the media and the public at large.

We have now formally issued our own Auditing Standards, and in developing these standards we have drawn considerably from the INTOSAI Auditing Standards as well as the standards of other SAIs.

During my tenure, India also had the privilege of being elected as a member of the United Nations Board of Auditors and I later chaired the Board. Our SAI's first tenure on the UN Board of Auditors has not only helped to exhibit our auditing skills and techniques to a wider audience through the audit of international organizations, but also to improve our methodologies for audit within India based on our experiences in UN Audit.

In keeping pace with time and technology, our SAI recognizes the growing importance of utilizing computers in ac-

counting and audit functions. To make better use of the power of IT, we have evolved an IT strategy covering the different business functions of our SAI, which attempts to maximize the benefits of IT to our organization, given the limited resources available. The strategy is under implementation, and the results obtained so far fully justify our investment in terms of human, financial and material resources. In all these achievements, we have benefitted considerably by our interaction and exchange of experiences with members of INTOSAI.

As I demit office, fond memories of my association with so many of you in the audit community come back to me. Your assistance and cooperation at various fora have been of great support to me during my tenure as head of the Indian SAI. I have also developed deep personal friendships, which I shall continue to cherish. I am sure my successor, Mr. V. K. Shunglu, will participate equally, in fact even more actively, in the work of INTOSAI and I hope you will extend him the same cooperation and support that I have received so generously over the years. I wish all of you in the INTOSAI community a successful and prosperous future. May "Mutual Experience Benefit All" even more so in the years to come! ■

Audit of Ethics in Government

By Donald J. Hardman, Associate Professor and Head of the Department of Financial Accounting and Auditing, University of Technology, Sydney, Australia

Originally, government auditing was confined to examining the public purse according to the provisions of a national constitution and relevant legislation, and government expenditures and revenues were the focus of auditing and reporting. In more recent years, the focus has grown to include comprehensive auditing of the use of government resources for economy, efficiency, and effectiveness. In at least two INTOSAI countries, the focus of government auditing has also widened to include the relevance of ethical issues arising from government decisions and policies.

Ethical Issues

Talking about "ethical issues" is easier than defining "ethics" to everyone's satisfaction. As subjective judgments of competing values are involved, individual interpretations are characterized by continuing disagreement, ambiguity, and uncertainty. However within societies there tends to be acceptance that ethical issues are linked to a code of conduct. In the case of business associations and professional bodies, this code may be formalized in a written document, although the population at large follows an informal code of ethical conduct. The unwritten rules of this code of ethical conduct are the historical product of social mores, i.e., customs, conventions, and standards generally regarded as essential to the well-being of a particular community.

The audit of ethical issues is therefore a reasonable concern of the SAI when executive decisions and policies clearly show that the government has departed from prevailing moral standards and societal values.

Although perceptions of the nature of ethics may vary between cultural and ethnic groups, there tends to be broad agreement within national communities on what is right and what is wrong. Accordingly, ethical issues are probably best understood in the context of what is considered to be morally correct by the standards prevailing in particular societies. The audit of ethical issues is therefore a reasonable concern of the SAI when executive decisions and policies clearly show that the government has departed from prevailing moral standards and societal values.

Initiatives in Ethics Auditing

In general terms, the enabling legislation for government auditing in INTOSAI countries does not specifically address auditing ethical issues. However, two countries—Israel and Australia—have specific references to ethics or morals in the auditing and financial legislation applicable to the public sectors. In Israel, this legislation has been in force since 1958 while in Australia a bill for the proposed legislation was introduced to Parliament in 1994 and is currently under consideration.

In Israel, the State Comptroller Law provides for the SAI to examine whether inspected bodies have operated economically, efficiently and in a "morally irreproachable manner." In Australia, the Financial Management and Accountability Bill provides for the efficient, effective, and "ethical use" of Commonwealth resources.

Although there are specific references to "morally irreproachable manner" (Israel) and "ethical use" (Australia), formal definitions of these terms have not been included in the relevant legislation. Similarly, guidelines for interpretation of these terms have not been provided. In the absence of such definitions or guidelines, it would appear that the particular SAI involved can interpret these references to ethical issues according to its own discretion. The Israeli experience has been to interpret "morally irreproachable manner" as relating to the probity, integrity and honesty of officials and politicians in the conduct of financial and administrative transactions and in the decision-making process. However in another country the interpretation could possibly involve the assessment of actual decisions and policies according to prevailing moral principles. At the other extreme, the exercise of discretion by the SAI may be confined to considering what is politically acceptable to the government concerned.

The ethical dimensions of government auditing should not be confused with whether the financial transactions of the executive branch have been carried out honestly. This is a different matter which, as seen above, involves the reluctant integrity of the officials and politicians concerned. Similarly, the ethical dimension of government auditing does not refer to the way in which audits are undertaken. Once again, this is a matter of individual conduct involving probity or integrity of the relevant auditors. In contrast, the ethical dimension of government auditing is essentially a matter of scope, where the audit examination targets executive decisions and policies in addition to the more common areas of financial regularity, legal compliance, and performance appraisal.

Ethics and the Auditing Mandate

Although Israeli and Australian legislation appear to contain the only explicit references to morality and ethics, many SAIs would probably claim that they have a general mandate allowing them to audit any matter at any time in discharge of the duties of their office—including ethical issues—if warranted by the circumstances of a particular audit. The nature and extent of this mandate are often disputed and contentious matters in the relationship between the executive government and the SAI.

In a formal sense, the mandate of the SAI is usually sanctioned by the national constitution and outlined in enabling legislation for the government's auditing function. In practice, however, this mandate may be influenced by the prevailing political climate, the relationships between the executive and legislature, and the calibre of the SAI involved. Accordingly, the nature and extent of the mandate may also be influenced by the personal and professional standards of the SAI head, his or her integrity and competence, the impact of personality and leadership, and the incumbent's own interpretation of his or her role.

This interpretation may vary widely among national auditing jurisdictions. Those SAIs who view their role strictly within the confines of the precise wording of the relevant legislation may take refuge from the dubious ethical actions of the executive behind the literal legal or regularity wall. However those SAIs who rely on their subjective interpretation of the intention or spirit of the legislation may take a strong stand on ethical issues. A few SAIs go much further by claiming the absolute right to determine their own bounds and limits (i.e., what to audit and how far to go) in a far-ranging interpretation embracing all aspects—including ethics—of the executive and its instrumentalities.

Ethics and Policy

A major problem in formally widening the government auditing mandate to include the audit of ethical issues is opposition by the executive. Proposals to extend the mandate have usually been resisted by governments on the grounds that ethics is an integral part of executive policy-making and, as such, is beyond the auditing jurisdiction of the SAI. Accordingly, it is not uncommon for governments to react strongly to what they perceive as attempts by the SAI to trespass on policy. However, differences of opinion can and do arise as to what is, or is not, policy. The boundaries of policy may be so vague and indeterminate that the SAI must target the related areas, particularly in matters of interest and concern to the legislature and electorate.

During the course of auditing disputed areas of policy, the SAI may be accused by the government of seeking to develop

a role that is neither authorized nor intended by the enabling legislation. Because of the possibility of jurisdictional disputes with the government, the SAI may elect to steer clear of ethical issues and any other matters involving government policy or how government aims and objectives are achieved.

Although it may be argued that the evaluation of government policy is the prerogative of the legislature—and ultimately of the electorate—the SAI still has the responsibility of auditing the financial effects and consequences generated by those policies. If relevant matters arising from government policies and policy-making are not addressed, the SAI may be auditing merely the symptoms rather than the cause of financial malaise. Accordingly, to ensure full disclosure by the government, the SAI should examine the nature of policies and the management of policy issues and report if public interest matters are at stake.

Winds of Change

The expansion of the government auditing mandate to include the audit of ethical issues is not entirely without precedent. In addition to the Australian initiative in the audit of ethical issues, other SAIs have enlarged the focus of their auditing and reporting to include other aspects of the decisions and policies of the executive that marked significant departures from the traditional auditing areas of financial regularity, legal compliance, and performance appraisal. For example, a few years ago the SAI of Canada criticized the government's unpreparedness for war or environmental disaster and reported on the dangers of eating fish from waters contaminated by effluent from nuclear research plants. More recently, INTO-SAI and its regional working groups expressed interest in environmental auditing, and in 1992 the INTOSAI Environmental Auditing Committee was established. The role of SAIs in auditing nontraditional areas, such as sustainable development strategies and environmental action plans, can be justified on the grounds that public officials are accountable to their respective legislatures and communities for the administration of the resources involved.

The audit of ethical issues may similarly be defended on the grounds of accountability. While government audits are conducted within the constraints of law, those SAIs who rely exclusively on the law for guidance on ethical issues run the risk of auditing in a moral vacuum because ethics by its very nature cannot be defined in this temporal way. In such a morally alienated auditing environment, SAIs would be reduced to the status of robots controlled solely by the legal and technical requirements of legislation to the total exclusion of all conduct not specifically covered by printed laws. Hopefully, SAIs will continue to push at the borders of their mandate to access ethical issues in the interest of public accountability. ■

Reinventing An SAI: Reorganizing the Netherlands Court of Audit

By Robert B. M. Mul and Brord van Westing, Netherlands Court of Audit

Introduction

Over the last 2 years, the Netherlands Court of Audit has undertaken its first major reorganization in decades to implement modern management principles as well as to adapt to specific changes in the Court's audit mandate and to general developments in central government. A more professional organization based on better delegation and allocation of individual responsibilities has been the key concept behind a wide range of changes in the Court's processes, structure and culture. While neither a reduction nor an increase in staff was intended, half the staff has been reassigned, and the number of managerial positions has been reduced by a quarter. The authors think that the methodology used to achieve the reorganization might contain useful lessons for supreme audit institutions (SAI) dealing with similar developments. By way of background, the Court consists of a 3-member Board and approximately 320 civil servants headed by a Secretary-General.

External Developments Lead to Internal Reorganization

The new shape of the Court stems from recent developments mentioned above. Over the last 20 years, amendments to the Government Accounts Act of 1976, the Court's principal authorizing legislation, have reflected an increasing emphasis on financial management, performance measurement, contract management, and the creation of agencies. The Court, through its publications, has made a considerable contribution in these areas. Its publications have become more frequent and its conclusions stronger. Furthermore, during the 1980s, the way in which government organizations operated received more attention, leading to privatization, deregulation, and tighter budgets.

These developments have affected the Court in three ways. First, changes within the civil service have resulted, by definition, in changes in the Court's object of audit. Sometimes even its audit mandate has changed; for example, the social security sector was brought under the Court's audit purview in 1989. Second, the increased attention to government operations and improved standards of internal control, auditing, and financial management have required the Court to focus more on broad issues as well as on systems analysis in its financial audits. The beginnings of a similar development can be seen regarding performance audits. Third, the Court's publications, recommendations, and other aspects of its own operations are being

scrutinized with a more critical eye than before. This increases the pressure to operate more professionally and to produce top-quality reports.

As a result of these three factors, the Board decided to spend more time on overall management of the audit program and less on managing internal operations. And, in 1993, the Board decided to reorganize the Court along the following four major areas.

Central Management: It was agreed that the management of the Court by the Board and senior officials needed to be improved. This included a clearer differentiation of responsibilities, tasks, and powers between the Board and senior officials, and a restriction of central management to audit department heads, combined with delegation of authority to lower-level officials and auditors in both substantive and administrative matters. Special attention to developing management skills was also needed.

Efficiency in the Audit Process: Increasing efficiency in this process required reducing the large number of units that reviewed draft reports, as well as a more effective system for monitoring audit progress.

Coordination and Communication: Improved coordination and communication between the different parts of the Court, especially those located at the ministries and those at the head office, was needed to achieve more uniformity in the way audits were undertaken, clearer product specifications, and a less divergent range of products.

Support Staff Operations: The support units needed to become more efficient by an increased commitment on the part of senior management to development projects concerned with audit policy, and through a better match between support staff resources and the Court's needs.

Implementing the Reorganization

Creating a Steering Committee and Obtaining Staff Input and Commitment

A Steering Committee, consisting of senior management to supervise the reorganization, and a full-time project team, consisting of audit staff that reported weekly to the committee, were formed. The decision to involve audit staff ensured, apart from the fact that they already knew the organization, more involvement in, and thus support for, the planned changes. There was a risk, however, that they would be blind to the areas

of their own work situations needing improvement and that they would design a new organization around the capacities of the then-current management. Therefore, a consultant firm was hired to coach the steering committee and project team members.

In a further effort to obtain staff commitment, an extensive survey was conducted of all staff and even some former staff. In addition, internal documents were scrutinized. These efforts resulted in identification of 236 problem areas, nearly all of which could be correlated to the 4 areas needing improvement named above: central management, efficiency, coordination and communication, and support tasks.

Learning What Steps in the Procedure Wouldn't Work

The existing regulations on reorganization provided for a step-by-step procedure. The first step was to formulate the problem. The second step was to draft a broad plan and request Board approval of it after consultation with the staff's representatives and unions. The third step involved drawing up detailed plans, followed by more consultation and decision-making. The fourth step was to implement the plans. This procedure was geared entirely to provide maximum certainty for the Board, senior management, and staff representatives about the desired changes before anything was actually changed. The big disadvantage would be of the loss of momentum during the reorganization because of the length of time spent talking and writing an extensive blueprint first. The lessons learned during the first two steps were that this procedure might be suitable for small changes but not for a major reorganization.

Continuing the Reorganization Under a New Secretary-General

At the end of the second step, the incumbent Secretary-General announced his acceptance of another position after 25 years of serving the Court. As a result, reorganization activities were slowed down and insecurity rose. A new Secretary-General had to be selected. The second stage had ended with formal Board decisions on who would head the audit departments. But would the new Secretary-General set other priorities and influence or even oppose some of the Board's decisions?

In November 1994, a new Secretary-General from outside the Court, Mr. Tobias Witteveen, took office and revitalized the steering committee and the project team. He supported a proposal to revise the third and fourth steps of the reorganization procedure, and the staff's representatives agreed. Under his leadership, detailed plans were presented and discussed with the top level of the organization only, then proposed to the staff's representatives and the Board, and finally directly implemented. Next, these same activities were carried out for the other levels of the Court successively. The reorganization process regained momentum and more speed than ever before. Even more important, the hidden but ever-present skepticism that in the end nothing would change was once and for all put to rest when the first changes were implemented.

Furthermore, the Secretary-General, being new to the organization and having the status of being newly appointed by the Board, was able to manage the reorganization as a neutral but determined bystander. This diminished the potential contribution of the consultant firm, whose contract was therefore terminated.

Assigning Management of the Internal Affairs to the Secretary-General

To more clearly differentiate tasks and responsibilities, a broad description was written of the Court's main functions. These were defined as "gathering evidence" and "transforming it into audit reports." The Court had to be organized in such a way that it could draft sound, consistent reports and serve Parliament and the government in the most effective way. On the basis of this definition, the Board decided to confine its role to developing strategic policy, managing the audit program, approving publications and the budget, and overall management of the organization. Full responsibility for day-to-day internal affairs was given to the Secretary-General.

Centralizing Support Staff

To scatter the Court's support staff throughout the organization would not be economical. Therefore, nearly all support staff were consolidated and reassigned to one support directorate, under the direction of the Secretary-General, who is in a position to allocate support staff resources to meet the audit staff's needs. An exception was made for the planning and control assistants, who were reassigned to the deputy directors. This aspect of the reorganization was helped by developments in technology during the 1980s which permitted audit staff to use word processing for themselves, thus allowing former typists to assume new tasks ranging from secretarial tasks to more complex audit support tasks, depending on their abilities and departmental needs. The reorganization clarified the tasks and the responsibilities of departmental secretaries and established the new position of departmental assistant.

Adopting a New Management Culture

For decades, managers had focused primarily on reviewing audit plans and draft reports. The vast majority had themselves once been auditors. Consequently, they had tended to duplicate the work of the auditors when reviewing these documents, instead of managing the audit process and building quality assurance into the process. The benefit of this was limited, while other matters (such as feasibility, the progress made in the audits, and the scope of the audits within a broader context) had received less attention than needed. The success of the organization will depend heavily on adoption of a new management culture which will require additional attention and training.

Slimming Down by Scaling Up

Although increasing the powers of the Secretary-General resulted in more centralized administration, more had to be done to ensure stronger management and consistency throughout the organization. Inconsistencies, for example, had re-

sulted from the large number of small audit units, which differed greatly in nature and approach, and had also led to an excessive number of managers.

Therefore, the former six audit divisions and five support bureaus were reorganized as four directorates. Three of the new directorates, each headed by a director and a deputy, contain a total of 18 audit departments instead of the former 24. There is one department per ministry, with three additional departments for governmentwide audits, and a separate department each for social security audits, electronic data processing audits, and regional audits. The fourth directorate is headed by the Secretary-General and contains departments providing support to the Board, facilities, audit policy development, human resources management, and editing services. At the senior management level, the meeting of the 11 heads of divisions and bureaus has been streamlined and replaced by a much smaller team consisting of the six deputy directors and presided over by the Secretary-General.

Differentiating Responsibilities More Clearly

Reducing the large number of organizational tiers and coordination teams which had resulted in inefficiency was not easy. Each had been reviewing the same draft reports separately, one after the other, each from its own point of view. Recognizing that each participant could have something to contribute, the Board decided not to cut the number of reviewers but to differentiate responsibilities more clearly. The new posts of director and deputy director permit a clearer differentiation of tasks and responsibilities. Each director, who bears ultimate responsibility, is expected to see that the six departments of his or her directorate follow the Court's audit policy. The deputy director is responsible primarily for managing the departments. He or she supervises the planning and the progress of the audits, as well as the implementation of personnel policy in each department.

This differentiation has also been implemented within the audit departments by introducing project-based auditing. Audit activities have been regrouped into projects executed by audit teams. These teams consist of two to five auditors led by an audit manager, another newly established position. The audit managers are fully responsible for the progress and the products of the audit teams. Audit department heads are to concern themselves with management of the audit program and staff, quality assurance, and the advocacy of the Court's activities and reports at the Ministry. In this so-called matrix organization, the lines of communication have been shortened. Each department head deals with the deputy director; each audit

manager may contact his or her director directly. Separate standing coordination teams have been abolished; their tasks and responsibilities have been handed back to the line managers.

Filling Top- and Lower-Level Positions

Implementation of the reorganization required that within the audit directorates, all the civil management staff (31 persons) be offered positions, while only 24 management jobs were left. Six of the 31 were appointed deputy directors. Two of the six had not been among the former six heads of audit divisions. Positions as heads of four departments, the duties of which had been greatly changed, were filled by selecting from among the candidates. Positions as heads of the 14 remaining departments, whose responsibilities had not been changed, were filled according to seniority.

A major shift has also occurred at the level of the new position of audit manager, where 40 positions were available. For these positions, auditors of varying seniority and salary were allowed to apply. Of the 80 applicants, 31 were selected, among them many younger auditors and women. A similar selection procedure was used for the new positions as audit assistants. All staff were given a chance to transfer to another audit department, and nearly half have been reassigned to other or newly created departments.

Time Will Tell

The reorganization process formally ended last July. However, real changes in the functioning of an organization take years. A reorganization can only create the conditions that enable staff to operate more efficiently and professionally. Now the staff are working together to find better ways to do their work. In September 1995, an extensive training program started as a follow-up to the reorganization. The changes should make the Netherlands Court of Audit better able than ever to fulfill its mandate. Will the Court succeed? Time will tell.

The authors would like to emphasize that the "old organization" was not a failure. Many well received audit reports and an excellent national and international reputation are proof of that. An SAI, however, whose duty it is to make recommendations to help to improve government, also has a duty to evaluate its own operations. Even an SAI might need improvement at some point.

For more information on the reorganization, contact the authors at: Netherlands Court of Audit, Lang Voorhout 8, P.O. Box 20015, NL-2500 The Hague, Netherlands. ■

Audit Profile: The Republic of South Africa

History

The South African governmental audit system was originally based on the British model. The first legislation which set out the appointment of the Controller and Auditor General, his conditions of service and his powers was adopted in the Exchequer and Audit Act in 1911.

The first major change to legislation came in 1975 with a new Exchequer and Audit Act which made provisions for reporting on aspects concerning the economy, efficiency, and effectiveness of the management of public funds. The controlling function of the Exchequer was, at the same time, transferred from the auditor general to the Treasury.

Until the passage of the Auditor General Act of 1989, the auditor general and the SAI were still subject to several provisions in carrying out their independent work which strengthened the misconception that the office formed a part of the executive institutions in the public sector. With the Auditor General Act, passed on May 29, 1989, the Office of the Auditor General was, for the first time, established in a separate act and clearly administered separately from the Department of Finance. This act was important in strengthening the independence of the SAI.

Independence

Although the SAI had enjoyed independence in conducting its work, prior to the passage of the Auditor General Act of 1989, the executive authority had the final say in certain administrative matters relating to the SAI. This situation was changed by the new legislation which separated the management, administration, and conditions of the SAI staff from that of the rest of the civil service. Furthermore, since April 1993, the Auditor General Act deals only with the appointment, duties, and powers of the auditor general.

The Auditor General Act and the Audit Arrangements Act are also aimed at effecting accountable audit independence for the auditor general and his office with the aid of appropriate checks and balances. In this regard, the Audit Arrangements Act makes provision for the Audit Commission to control the financial matters of the office and for the Staff Management Board to take care of staff matters. Despite the constitutional changes in South Africa, the key position of a single, independent auditor general is clearly defined and emphasized in the new Constitution of 1993.

As set out in the constitution, the auditor general has complete independence in the performance of his duties. He must disclose his findings to the public, 14 days after reporting, in an unbiased manner, on the accounts he examined.

The auditor general is appointed by the President of South Africa for a single, fixed term (between 5 and 10 years). A person could only be appointed as auditor general if he is nominated by a joint committee of the House of Parliament composed of one member of each party and approved by both houses of Parliament by a majority vote of at least two-thirds of the members present. Duties and functions may only be assigned to the auditor general by an act of Parliament.

Today, the auditor general can be regarded as the independent auditor acting for the legislature of South Africa by planning and conducting government audits on a cost-effective basis, applying well-founded scientific techniques in accordance with recognized professional practices, and reporting the results to legislative institutions in a timely manner in order to provide greater accountability.

Scope of Audits

The auditor general and the SAI are responsible for more than 1200 regularity audits. These include 34 government departments, 9 provincial governments, approximately 742 local authorities, 22 agricultural control boards, and approximately 454 statutory bodies, accounts, funds, and museums. In addition, 43 performance audits were carried out in 1993.

The auditing methods adopted as policy by the Office of the Auditor General are mainly based on the systems approach which focuses largely on evaluating the control aspects of systems and structuring substantive tests accordingly. In addition, in September 1990 the office formally adopted compliance with generally accepted government audit standards (as developed by INTOSAI) as its policy.

Mechanisms have since been put into place to ensure that all audits will comply with these standards and that, where there may be any deviations, a sound approach is established. In the SAI, compliance with generally accepted government audit standards is a prerequisite for the reliability of audit opinions, be they qualified or unqualified.

Organization, Staff and Training

The auditor general appoints, in concurrence with the Audit Commission, a Deputy Auditor General. The deputy, who is also the Head of the Office of the Auditor General, is responsible for the efficient management and administration of the office. He is also the accounting officer of the SAI.

The SAI employs approximately 950 permanent staff members, and private audit firms have also been used to carry out audits on behalf of the auditor general.

Given the extent and diversity of governmental audits which must be undertaken, auditing has to be performed country-wide. The head office is situated in Pretoria, with 21 regional offices in the different main centers in South Africa.

The SAI has embarked on a long-term drive to enhance the qualifications of its staff. The qualification status of the functional staff has almost doubled over the past 7 years, with almost 70% of the staff having the equivalent of a 3-year degree. Several in-house training courses are presented annually, dealing with subjects such as audit approach and methodology, audit planning, and analytical review.

Budget

The 1993/94 budget of the office, including capital expenditure, was R150.4 million. The Rand value of expenditures audited by the SAI was in excess of R180 billion in terms of the 1992 Rand.

The income of the office is obtained from funds earned for services rendered. The costs of audits are calculated by means of a computerized recording system developed by the office and are recovered from auditees on a differential basis of a grading account. At present the SAI recovers 76% of total time available. The financial statements of the office are prepared according to generally accepted accounting practices and are audited by an independent auditor appointed by the Audit Commission.

Challenges Facing the Office

The new constitution in South Africa, as well as affirmative action requirements and the application of the Reconstruction and Development Program, will have an impact on the SAI.

The office has established an Affirmative Action program to make the office more representative of the demographics of the country. The principle in the new constitution which established a single auditor general requires the amalgamation of all existing government audit offices (including those in formerly independent states). Finalizing these arrangements will contribute to making the staff more representative, and the large number of people joining the office will increase demands on training and support mechanisms.

Following the guidelines of the draft white paper on reconstruction and development published in September 1994, it is foreseen that greater emphasis will have to be placed on government auditing of the reporting on performance information. Performance assessment and key indicators will be applied to government and its agencies at all levels to ensure efficiency and effectiveness, based on clear measurable outputs.

For more information on the SAI, please contact: The Auditor General, P. O. Box 446, Pretoria, 0001, SOUTH AFRICA.■

Reports in Print

In April 1995, the Auditoria General de la Nacion (AGN) in Argentina and the Consejo Profesional de Ciencias Economicas de la Capital Federal co-sponsored an International Symposium on Value-for-Money (VFM) Auditing. This meeting provided a forum for representatives from the legislature, the AGN, and the academic community in Argentina to exchange ideas and experiences with leaders from the SAIs of Canada, Mexico, Portugal, the United Kingdom and the United States.

In opening the symposium, Dr. Vicente Antonio Barras, Acting President of the AGN, noted that "government control, as it is conceived now, has many-sided characteristics, and must nourish itself with the knowledge provided by a wide variety of disciplines." The papers presented at this meeting, and now published in a Spanish-English format, explored such diverse issues as the role of the SAI and its relationship with the legislature, the media and the public; the importance of planning; ensuring the quality of audit work; the need for reliable information and an environment which supports audit activities; the application of VFM approaches to examining public debt; and, the application of comprehensive audit procedures.

Copies of the *Jornada Internacional de Auditoria de Gestion* are available through the Auditoria General de la Nacion, Hipolito Yrigoyen 1236, Buenos Aires, ARGENTINA C.P. 1086.

In support of its goal of encouraging and promoting research and publishing professional articles in auditing and related fields, the Asian Organization of Supreme Audit Institutions (ASOSAI) has issued its third research report, a book on the Audit of Public Works and Projects. Completed by the Deputy Auditors General of Malaysia, China, and India, with support from the ASOSAI member countries who provided papers, the book provides an overview of the scope, objectives, organization and methodology of public works and projects.

The study covers the audit of construction activities of all kinds and discusses the role of SAIs in ensuring that accountability exists at all stages in the planning, implementation, monitoring and evaluation of these projects. Realizing that an attempt to establish norms for the audit of public works and projects across so many different SAIs could be futile, the research project instead was conducted with a view to examining the institutional framework for undertaking public works programs and the prevailing auditing practices within the ASOSAI region. The papers submitted by the 19 SAIs discuss the project approval process; project budgeting, funding, and accounting; project implementation; government management and control of public works implementation; operation, main-

tenance and utilization of public projects; privatization of public works and projects; foreign aid projects; audit mandate; audit objectives; scope of audit; audit procedures and methodology; reporting; and, problems and limitations.

In the conclusion, the authors note that as "the public becomes more concerned with the value-for-money of public works and projects, there will be increased demands for SAIs to improve audit techniques and methodologies. It is expected that the information contained in this research document will not only provide an impetus to think further of the problems but also help to build up a scenario for improved audit practices."

Copies of the text, available in English, can be obtained by contacting the Secretary General of ASOSAI, President, Board of Audit, 3-2-1 Kasumigaeki, Chiyoda-ku, Tokyo 110, JAPAN.

The Supreme Chamber of Control in the Republic of Poland has prepared a new publication describing the recent changes and achievements in its SAI. In examining the developments in the last 3 years, attention is given to the adaptation and reconstruction undergone by the SAI to ensure that it is prepared to meet the new governmental requirements. Chapters in the book discuss the past and present of the SAI and present the regulatory framework and mode of operations in the new office. It also includes the audit results and a list of major pronouncements on the results of audits completed from 1992 to 1994 and the text of the Act of the Supreme Chamber of Control of December 23, 1994.

Copies of the book, entitled *Supreme Chamber of Control*, are available at no cost, in English and Polish, by contacting: Dr. Jacek Mazur, Najwyższa Izba Kontroli, skrytka pocztowa P-14, 00 950 Warszawa, POLAND.

The Institute of Internal Auditors (IIA) has recently published *A Management Guide to Discretionary Expenditure*. Completed by the IIA Public Sector Internal Audit and Review Group, a sub-group of the New Zealand Institute of Internal Auditors, the booklet seeks to identify areas of potential risks and provide examples of good practices to reduce these risks and improve corporate governance in the area of discretionary expenditures. It also describes minimum standards against which organizations can measure current practices.

For the purposes of the booklet, discretionary expenditure is defined as the case "where the individual committing the expenditure may be, or be seen to be, the beneficiary." The guide highlights a wide range of these types of expenditures

and then seeks to describe general principles, identify risks, and suggest potential methods of reducing risks. Topics covered include: entertainment related expenditures; travel related expenses; credit cards; salary related, miscellaneous, and work related expenditures; and reporting of inappropriate expenditures. The booklet also lays out some general statements on internal controls and policies and includes a checklist or self-assessment form.

Copies of the book can be obtained, at a cost of NZ\$10, from Michael Chivers, Executive Director, IIA NA, P.O. Box 34-311, Birkenhead, Auckland, NEW ZEALAND.

In 1994, experts from several countries gathered at a seminar sponsored by the United Nations Department for Development Support and Management Services to discuss performance contracting, and the summary and results of this meeting are now available. As defined by this group, perform-

ance contracting offers a way of improving public enterprises by bringing private sector entrepreneurship and accountability into a public enterprise while allowing for possible privatization in the future. *Performance Contracting for Public Enterprises* provides a review and analysis of experiences around the world, and country studies from China, the Gambia, India, Kenya, the Republic of Korea, and Pakistan. *Guidelines on Performance Contracting* is a practitioner's manual with a step-by-step description of the requirements for setting up a performance contracting system. It also includes illustrative performance contracts in diverse areas such as agriculture, transportation, utilities, manufacturing, natural resources, shipping, and research.

Copies of the two publications can be obtained through United Nations book stores around the world or by writing to United Nations Publications, United Nations Secretariat, Room DC2-0853 Sales Section, United Nations, New York, NY 10017, USA. ■

Inside INTOSAI

SAIs' E-Mail Addresses

In support of INTOSAI's communications strategy, each issue of the *Journal* will publish the e-mail/internet addresses of SAIs, INTOSAI programs, and related professional organizations. Also listed are home page addresses on the world wide web (www). SAIs are asked to notify the *Journal* as they acquire these addresses. The addresses printed in bold type are new addresses; the others were published in the January 1996 issue.

INTOSAI General Secretariat: <rh.into@magnet.at>;
<<http://www.intosai.magnet.at/intosai/>>

International Journal of Government Auditing:
<75607.1051@compuserve.com>

SAI of Australia: <ag1@anao.gov.au>

SAI of Costa Rica: <xcisnado@casapres.go.cr>

SAI of Estonia: <rh.sao@netexpress.ee>

SAI of Hong Kong: <auddept@hk.super.net>

SAI of India: <cag@hub.nic.in>

SAI of Japan: <kys00366@niftyserve.or.jp>

SAI of Korea: <gsw290@blue.nowcom.co.kr>

SAI of Malaysia: <jbaudit@po.jaring.my>

SAI of Netherlands: <rekenkam@bart.nl>

SAI of Norway: <elinfa@oslonett.no>

SAI of Pakistan:
<mohsin%auditgenpk@sdnpk.undp.org>

SAI of Paraguay: <director@astcgr.una.py>

SAI of Singapore: <audgen@cs.gov.sg>

SAI of South Africa: <agsares@cis.co.za>

SAI of Sweden: <goran.steen@rrvsweaudit.postnet.se>

SAI of United Kingdom: <nao.@gtnet.gov.uk>

SAI of the United States of America:
<lehmanp@gao.gov> and <<http://www.gao.gov/>>

International Consortium on Governmental
Financial Management: <[http://financenet.gov/
icgfm.htm](http://financenet.gov/icgfm.htm)>

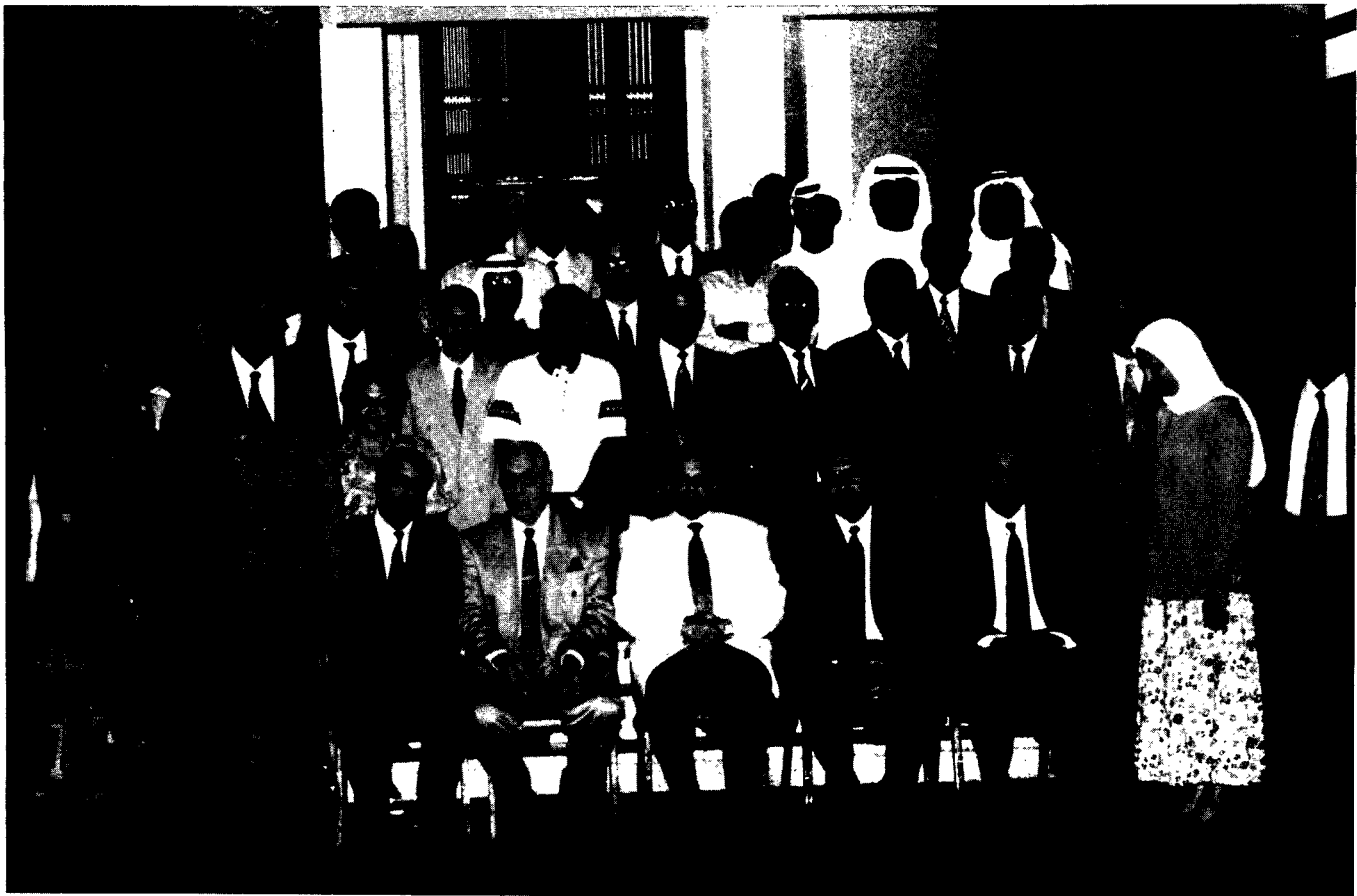
International Federation of Accountants: <[http://
www.ifac.org](http://www.ifac.org)>

INTOSAI EDP Auditing Committee



Since its first meeting in 1992, the INTOSAI EDP Auditing Committee has produced a number of publications of use to SAIs. Pictured here are two of those publications which were approved and issued at the Cairo Congress in September 1995: "intoIT", the Committee's information technology Journal that is distributed to all INTOSAI members, and "Guide to Developing IT Strategies in Supreme Audit Institutions." Other publications include the "INTOSAI EDP Directory," "Information Systems Security Review Methodology," and the "IT Audit Curriculum for INTOSAI." For more information on the committee's work, contact the Office of the Comptroller and Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi 110002, India; e-mail address: <cag@hub.nic.in>.

ARABOSAI/IDI Workshop



The ARABOSAI/IDI workshop on audit testing was held in Cairo from October 14 to 25, 1995, and drew participants from the SAIs of the following countries: Algeria, Egypt, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Palestine, Sudan, Tunisia, United Arab Emirates, and Yemen. The workshop was planned in conjunction with Egypt's Central Auditing Organization (CAO), which also provided a workshop instructor. Pictured above are workshop participants and instructors with CAO President Fakhry Abbas (seated in the center) and Vice-president Farouk El-Azhary (seated second from the left).

1996/97 Calendar of INTOSAI Events

April

May

June

INTOSAI Environmental Auditing Committee
The Hague, Netherlands
May 6-7

EUROSAI Congress
Prague, Czech Republic
May 20-24

INTOSAI Governing Board Meeting
Vienna, Austria
June 24-26

INTOSAI Public Debt Committee Meeting
June 20-21
London, England

July

ASOSAI-IDI Strategic Planning Workshop
Bali, Indonesia
July 5-9

ASOSAI Governing Board Meeting
Bali, Indonesia
July 9-11

August

September

AFROSAI Congress
Libreville, Gabon
September 9-17

ARABOSAI Governing Board Meeting
Rabat, Morocco
(date to be announced)

October

INTOSAI /UN Seminar
Vienna, Austria
October 21-25

OLACEFS Governing Board Meeting
Cuzco, Peru
(date to be announced)

November

Commonwealth Auditors General Conference
Lahore, Pakistan
November 4-6

SPASAI Congress
Micronesia
November 25-29

OLACEFS Congress
Guatemala City, Guatemala
(date to be announced)

December

1997

January

February

March

Editor's Note: This calendar is published in support of INTOSAI's communications strategy and as a way of helping INTOSAI members plan and coordinate schedules. Included in this regular Journal feature will be INTOSAI-wide events and region-wide events such as congresses, general assemblies, and Board meetings. Because of limited space, the many training courses and other professional meetings offered by the regions cannot be included. For additional information, contact the Secretary General of each regional working group.

ARTICLES

- CAROSAI Congress: Towards Greater Accountability, January, p. 8
Forging Multifaceted Cooperation: ASOSAI's 6th Assembly and 5th International Seminar, January, p. 11
J. Wayne Cameron, Public Service Reform: The Auditor's Perspective, January, p. 14
Inga-Britt Ahlenius, A New Strategy for Performance Audits of Social Security Systems, April, p. 7
Paul Benson, Improved Audit Coverage by Small Audit Teams, April, p. 10
Reinhard Rath, INTOSAI Launches Electronic Communications Project, July, p. 12
Yvan Gaudette, Training for the 21st Century: IDI's 5-Year Plan, July, p. 14
Fifteenth INTOSAI Congress Held in Cairo, October, p. 2

AUDIT PROFILES

- Switzerland, January, p. 18
Argentina, April, p. 14
Egypt, July, p. 16

EDITORIALS

- Towards Greater Accountability, January, p. 1
INTOSAI and the ANAO, April, p. 1
Life Between Congresses: Involvement is the Key, July, p. 1
Mutual Experience Benefits All, October, p. 1

INSIDE INTOSAI

- Governing Board Holds 39th Meeting in Cairo, January, p. 21
IDI Training Workshops in AFROSAI and SPASAI, January, p. 23
XV INCOSAI Update, April, p. 17
Hubert Weber to European Court of Auditors, April, p. 17
EDP Committee Issues Journal, April, p. 17
5th ARABOSAI Congress Slated for Beirut, April, p. 18
IDI Training Workshops in ARABOSAI and AFROSAI, April, p. 18
OLACEFS Conference in Uruguay, April, p. 19
INCOSAI XV Program, July, p. 19
CAROSAI/IDI Workshop, July, p. 19
EUROSAI Seminar on Privatization, July, p. 20

NEWS IN BRIEFS

- | | | |
|-----------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------------|
| Albania, July, p. 2 | Hong Kong, July, p. 5 | South Africa, July, p. 9 |
| Aruba, July, p. 2 | Hungary, July, p. 6 | Spain, April, p. 5 |
| Australia, July, p. 2 | Ireland, April, p. 4 | Sri Lanka, July, p. 10 |
| Austria, January, p. 3; July, p. 2 | Italy, July, p. 6 | Trinidad and Tobago, July, p. 10 |
| Bahrain, July, p. 2 | Jordan, July, p. 6 | Turkey, July, p. 10 |
| Belarus, July, p. 3 | Kyrgyz Republic, July, p. 6 | Turks and Caicos Islands, July, p. 10 |
| Belgium, January, p. 3; July, p. 3 | Lesotho, July, p. 6 | United Arab Emirates, July, p. 11 |
| Brazil, July, p. 3 | Liechtenstein, July, p. 7 | United Kingdom, July, p. 11 |
| Canada, January, p. 4; April, p. 3;
July, p. 3 | Lithuania, January, p. 7; July, p. 7 | United States of America, July, p. 11 |
| Cape Verde, July, p. 3 | Malaysia, July, p. 7 | Venezuela, July, p. 11 |
| Chile, July, p. 4 | Maldives, July, p. 7 | Food and Agriculture Organization, July,
p. 11 |
| China, April, p. 3; July, p. 4 | Mali, July, p. 7 | International Consortium on Governmental
Financial Management, April, p. 6 |
| Costa Rica, July, p. 4 | Mexico, July, p. 7 | SADCOSAI, April, p. 6 |
| Croatia, July, p. 4 | Monaco, July, p. 7 | |
| Czech Republic, July, p. 4 | Nepal, April, p. 4; July, p. 8 | |
| Ecuador, July, p. 4 | Netherlands, July, p. 8 | |
| Estonia, July, p. 4 | New Zealand, January, p. 7; April, p. 4 | |
| European Union, January, p. 4; April,
p. 3; July, p. 5 | Norway, April, p. 5; July, p. 8 | |
| France, January, p. 5 | Pakistan, April, p. 5; July, p. 8 | |
| Germany, January, p. 6; July, p. 5 | Poland, July, p. 9 | |
| Greece, July, p. 5 | Portugal, July, p. 9 | |
| Guyana, January, p. 6; July, p. 5 | Russia, July, p. 9 | |
| | Saudi Arabia, July, p. 9 | |
| | Slovak Republic, July, p. 9 | |

Join over 8,000 government managers,
accountants and auditors, private practitioners,
educators and students who subscribe to:

International Journal Of Government Auditing

Official publication of INTOSAI
(International Organization of Supreme Audit Institutions)

Regular features on:

- Audit procedures and techniques
- Case studies
- Audit training opportunities and methods
- Professional literature
- Audit news from over 140 countries

Published quarterly in
Arabic, English, French, German and Spanish



A publication dedicated to the advancement of
Government auditing procedures and techniques.
Published four times a year on behalf of the
international organization of supreme audit
institutions

SUBSCRIPTION ORDER FORM

--	--	--	--	--	--

Please enter a Subscription to the International Journal of Government Auditing,
as follows.

SUBSCRIPTION— ONE COPY	1Yr. US\$5	2Yr. US\$10	3Yr. US\$15	4Yr. US\$20
NUMBER OF COPIES				

I enclose \$_____ (Check or money order)

LANGUAGE: Arabic_____ French_____ Spanish_____ English_____ German_____

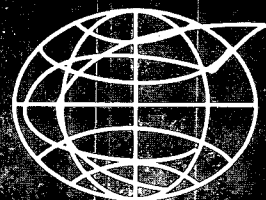
NAME (Please Print)_____

ADDRESS_____

CITY_____ COUNTRY_____

INTERNATIONAL JOURNAL OF GOVERNMENT AUDITING
P.O. BOX 50009 WASHINGTON D.C. 20004

INTOSAI



Printed on
Recycled Paper